

## Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOTE-00 INR-07 NSAE-00 FAA-00 PM-03 INRE-00 NSCE-00

SSO-00 L-02 TRSE-00 /034 R

DRAFTED BY EB/AN:JBMAGNOR:DAP

APPROVED BY EB/TT:RJWALDMANN

EB/OA - M. STYLES

EUR/WE - MR. BARBOUR

PM/ISP - L. BROWN

EUR - MR. VINE

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FM SECSTATE WASHDC

TO AMEMBASSY THE HAGUE IMMEDIATE

C O N F I D E N T I A L STATE 074094

E.O. 11652:GDS

TAGS: EAIR, NL

SUBJECT: CIVAIR: KLM CAPACITY

REF: A) HAGUE 1618; B) HAGUE 1612; C) STATE 70064;

- D) STATE 70065

1. WE ARE ATTEMPTING ACCOMPLISH A NUMBER OF CO-EQUAL OBJECTIVES IN CURRENT EXERCISE WITH DUTCH: (1) THE FLOW OF SOME PRACTICAL BENEFITS TO PAN AM; (2) THE AVOIDANCE OF A CONFRONTATION WITH DUTCH WHICH WOULD ADVERSELY EFFECT FIGHTER REPLACEMENT QUESTION; AND (3) THE AVOIDANCE OF A SETTLEMENT WHICH COULD BE INTERPRETED AS AN AVIATION DEFEAT FOR U.S. RESULTING ALMOST CERTAINLY IN CREATION ENORMOUS DIFFICULTIES WITH SOME THIRD COUNTRIES AND, OF COURSE, WITH PAN AM'S CREDITORS AND POTENTIAL CREDITORS AND INVESTORS SUCH AS IRANIANS WHO MUST BE REASSURED USG DETER-  
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MINATION TO PURSUE PROGRAMS BENEFITTING PAN AM.  
UNFORTUNATELY, LATEST DUTCH OFFER DESCRIBED REF B DOES

NOT APPEAR TO CONTAIN ELEMENTS WHICH SUGGEST POSSIBLE SETTLEMENT WHICH WILL ACHIEVE THESE U.S. OBJECTIVES (SEE REF C AND PREVIOUS).

2. AT THIS POINT, IT IS BECOMING CLEAR THAT KEY ELEMENT IN EVENTUAL AGREEMENT IS LEVEL OF KLM FREQUENCY. SECOND-ARY ELEMENT OF 540,000 SEATS WAS INCORPORATED IN SECRETARY'S PROPOSAL FOR TWO PURPOSES: (1) TO SHOW ADDITIONAL U.S. FLEXIBILITY SINCE 540,000 SEATS CLOSE TO SEAT CONSTRAINT OF ABOUT 600,000 IMPLICIT IN EARLIER DUTCH PROPOSALS; AND (2) TO PRECLUDE KLM'S USE OF HIGH DENSITY EQUIPMENT TO OPERATE PRESENT SEAT CAPACITY AT LEVEL OF 18 FREQUENCIES. IT IS NOW APPARENT FROM THEIR LATEST PROPOSAL THAT DUTCH TOO VIEW FREQUENCY AS THE MORE IMPORTANT ELEMENT--PROBABLY NOT SURPRISINGLY GIVEN FACT THAT IN AIRLINE INDUSTRY FREQUENCY AND COMPETITIVE QUALITY OF SERVICE ARE VIRTUALLY SYNONOMOUS.

3. AS WE UNDERSTAND THE VAN DER STOEL LETTER AND WESTERTEP/ORLANDINI COMMENTS, THE DUTCH HAVE COMMUNICATED TO US A LEVEL OF KLM FREQUENCY CHARACTERIZED AS THEIR FINAL POSITION. NEVERTHELESS, VAN DER STOEL STATES THAT OUR NEGOTIATORS SHOULD MEET AGAIN. IN TERMS OF NEGOTIATING TACTICS, WE BELIEVE THAT WE MUST NOW INDICATE TO THE DUTCH THAT LEVEL OF KLM FREQUENCY ABOVE WHICH THE USG CANNOT GO. OUR FAILURE TO DO SO WOULD PROVIDE NO OCCASION FOR THE DUTCH TO RECONSIDER THEIR LAST POSITION AND WOULD PLACE US IN A WEAK BARGAINING POSITION.

4. SINCE YOU ARE UNABLE TO SEE VAN DER STOEL BEFORE HE DEPARTS FOR MIDDLE EAST, BELIEVE YOU SHOULD SEEK EARLY MEETING WITH WESTERTEP TO MAKE REF C APPROACH TO

BE FOLLOWED UP DURING YOUR APRIL 7 MEETING WITH VAN DER STOEL. KISSINGER

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